



MKTG 4825 Pricing Strategies and Channel Management

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University of Colorado at Boulder



Prerequisites

- BCOR 2400
- MKTG 3250: *Buyer Behavior*
- MKTG3350: *Marketing Research*



About me

- Research experiences

- Online Movie/Game/Book rental services



- Loyalty programs of major hotel chains/airlines



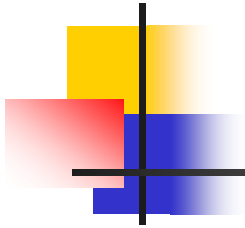
- Online matching services





Today's agenda

- Course overview and objectives
 - Importance of pricing and channel decisions
 - How to find the right price format/level?
 - How to identify the right channel choice?
- Logistic Issues



So, let's start...

calvin and Hobbes

by WATKINSON

15 BUCKS
A GLASS?!

THAT'S RIGHT!
WANT SOME?



HOW DO YOU
JUSTIFY CHARGING
15 DOLLARS?!

SUPPLY AND
DEMAND.



WHERE'S THE
DEMAND?!
I DON'T SEE
ANY DEMAND!

THERE'S LOTS
OF DEMAND!



YEAH?

SURE! AS THE SOLE
STOCKHOLDER IN THIS
ENTERPRISE, I DEMAND
MONSTROUS PROFIT ON
MY INVESTMENT!



AND AS PRESIDENT AND CEO OF
THE COMPANY, I DEMAND AN
EXORBITANT ANNUAL SALARY!



AND AS MY OWN EMPLOYEE, I
DEMAND A HIGH HOURLY WAGE
AND ALL SORTS OF COMPANY BENEFITS!
AND THEN THERE'S OVERHEAD AND
ACTUAL PRODUCTION COSTS!



BUT IT LOOKS
LIKE YOU JUST
THREW A LEMON
IN SOME
SLUDGE WATER!

WELL, I HAVE TO
CUT EXPENSES
SOMEWHERE IF
I WANT TO STAY
COMPETITIVE.



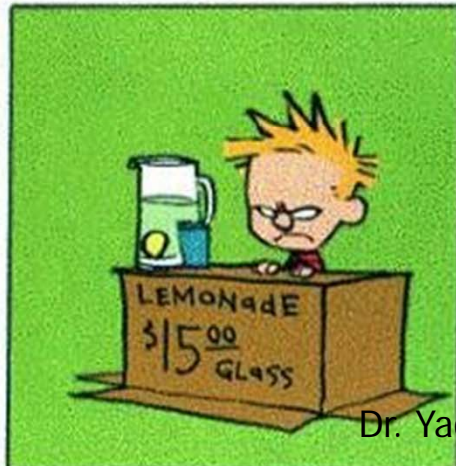
WHAT IF I
GOT SICK
FROM THAT?

"CAVEAT EMPTOR" IS
THE MOTTO WE STAND
BEHIND! I'D HAVE
TO CHARGE MORE IF
WE FOLLOWED HEALTH
AND ENVIRONMENTAL
REGULATIONS.



YOU'RE OUT OF
YOUR MIND.
I'M GOING
HOME TO DRINK
SOMETHING
ELSE.

SURE! PUT ME OUT
OF A JOB! IT'S
YOU ANTI-BUSINESS
TYPES WHO RUIN
THE ECONOMY!



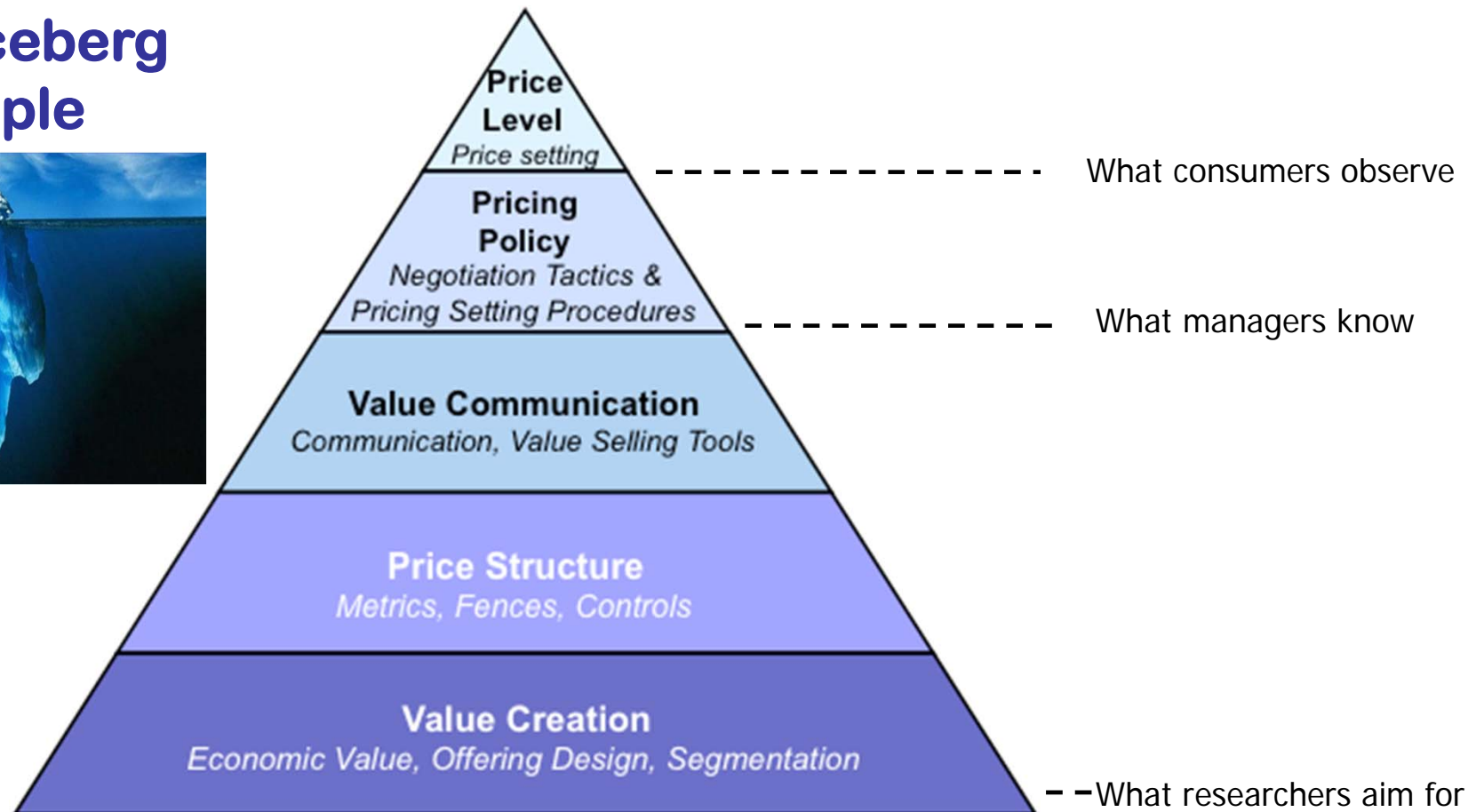
Dr. Yacheng Sun, UC Boulder

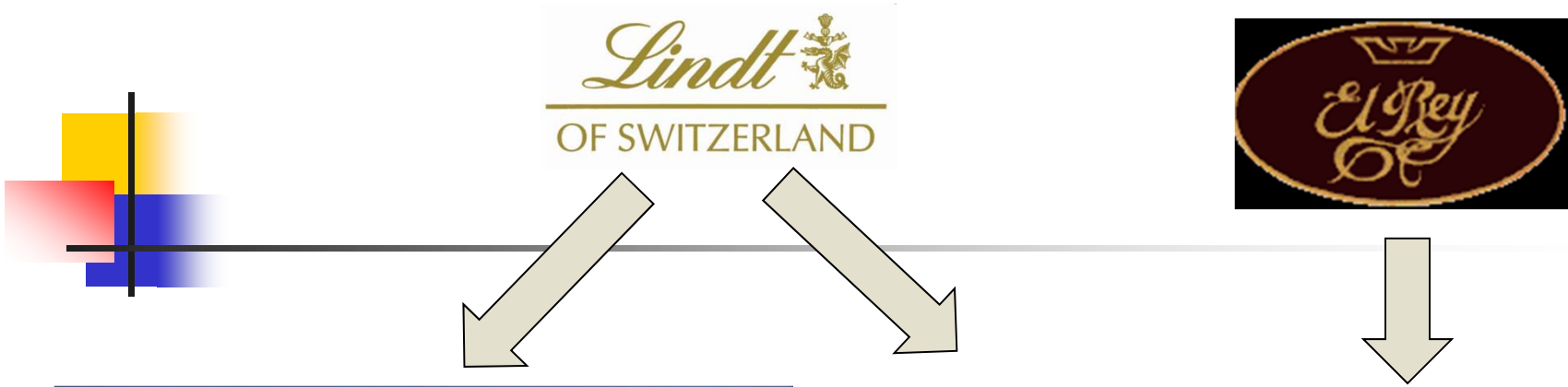
I NEED TO BE
SUBSIDIZED.

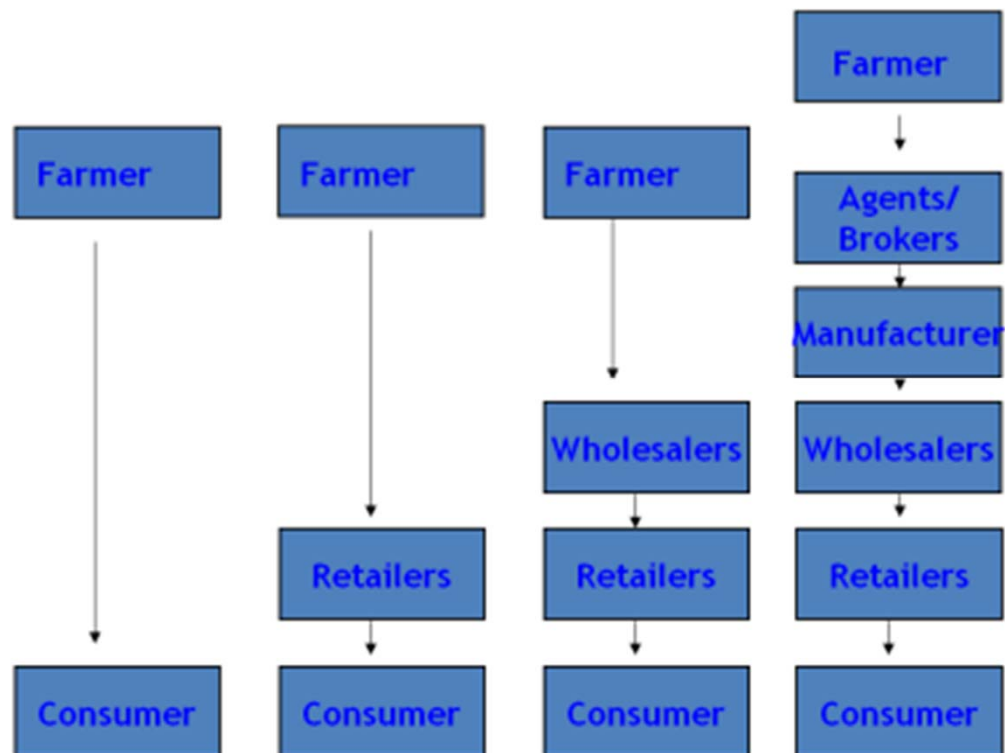
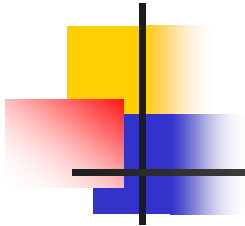


The strategic pricing pyramid

The Iceberg Principle









Course objectives

- Knowledge of
 - rationales behind various price formats
 - Factors that influence the design and execution of pricing strategy.
 - Importance of value-based pricing strategy

- Ability to
 - develop simple and demand-based models and solve analytically for optimal prices
 - solve numerically for optimal prices based on model of sales

- Knowledge of
 - types of channels and the choice of channels
 - channel conflicts and channel coordination



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Examples

BEST BUY Search by Keyword, SKU # or Item #  [Store Locator](#) [Weekly Ad](#) [Credit Cards](#)

PRODUCTS **SERVICES** **SHOPS & DEALS** **GIFTS**

Best Buy > GPS, Car & Marine > GPS Navigation > **Portable GPS**

NARROW YOUR RESULTS BY:

Check Stock In Stores Near Me **GET IT**

GO

Customer Reviews
Top-Rated (5)


Current Offers
On Sale (19)
Special Offers (49)
Free Shipping (38)
Package Deals (2)
Financing Offers (44)
Outlet Center (10)

Brand
Garmin (40)
TomTom (22)
Magellan (10)
Insignia™ (2)
Bracketron (1)
Lowepro (1)
See all...



Screen Size
4 - 4.9" (49)
5 - 5.9" (13)
7" and Up (1)
Under 4" (8)

Designed Usage
Car (50)
Hiking (1)
Motorcycles (1)
Pedestrian (3)
Trucks (3)



Included Maps
United States (64)
Canada (51)
Puerto Rico (41)

1 - 15 of 75 1 2 3 4 5  Sort by: Best Selling



View: 15 per page ☐ ☐ ☐ **COMPARE**
Compare up to 3 items

 **Garmin - nüvi 255WT GPS**
Model: NUVI 255WT | SKU: 9252854
Preloaded base map coverage of United States and Canada; 4.3" touch-screen display; up to 1,000 waypoints; Secure Digital media slot; free lifetime traffic updates
 Compare
★★★★★ 4.4 of 5 (613 reviews)
[Check Shipping & Availability](#)



Sale: \$99.99
Reg. Price: \$129.99
You Save: \$30.00
✓ On Sale
✓ Save \$15 on a combined purchase: See how
✓ Free Shipping
ADD TO CART

 **TomTom - XL 350TM GPS**
Model: 1ET0.019.04 | SKU: 9927197
Preloaded base maps of Mexico, the U.S., Canada and Puerto Rico; 4.3" color touch screen; text-to-speech voice guidance; lifetime traffic and map updates for the U.S. and Canada; advanced lane guidance for the U.S.
 Compare
★★★★★ 3.8 of 5 (58 reviews)
[Check Shipping & Availability](#)

\$229.99
✓ Save \$15 on a Combined Purchase: See How
✓ Free Shipping
✓ Great Financing Offer
ADD TO CART

 **Garmin - nüvi 255W GPS**
Model: NUVI 255W | SKU: 9252872
Preloaded base map coverage of the United States and Canada; 4.3" touch-screen display; up to 1,000 waypoints; Secure Digital media slot
 Compare
★★★★★ 4.4 of 5 (278 reviews)
[Check Shipping & Availability](#)

\$109.99
✓ Save \$15 on a combined purchase: See how
✓ Free Shipping
ADD TO CART

 **Garmin - nüvi 1300LM GPS**
Model: 010-00782-4M | SKU: 9940512
Preloaded base map coverage of the U.S. (excluding Alaska) and Puerto Rico; 4.3" display; text-to-speech voice guidance; lifetime map updates; 3D mapping
 Compare

Sale: \$129.99
Reg. Price: \$189.99
You Save: \$60.00
✓ On Sale
✓ Save \$15 on a

Examples

- Fast-food restaurants (KFC, Burger King, McDonald's) offer both a la carte items and value meals.



Examples

- Passengers who book airline tickets earlier are most likely to get bumped due to the common over-booking practices by airlines.





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An example - 1GB CU Logo Kingston Flash Drive

Observation	Date	Retail Price	Quantity Sold	Begin_Class?
1	4/6/2009	9	2	0
2	4/13/2009	9	6	0
3	4/20/2009	9	5	0
4	4/27/2009	9	2	0
5	5/4/2009	9	8	0
6	5/11/2009	9	1	0
7	5/18/2009	9	29	0
8	5/26/2009	9	2	0
9	6/1/2009	9	4	0
10	6/8/2009	9	16	0
11	6/15/2009	9	1	0
12	6/22/2009	9	1	0
13	7/6/2009	9	2	0
14	7/13/2009	9	2	0
15	7/20/2009	9	2	0
16	7/27/2009	8	17	0
17	8/3/2009	8	11	0
18	8/10/2009	8	16	0
19	8/17/2009	8	12	1
20	8/24/2009	8	9	1



Research objectives

- Identify the optimal prices
- Identify the customer segmentation strategies that supplements these prices



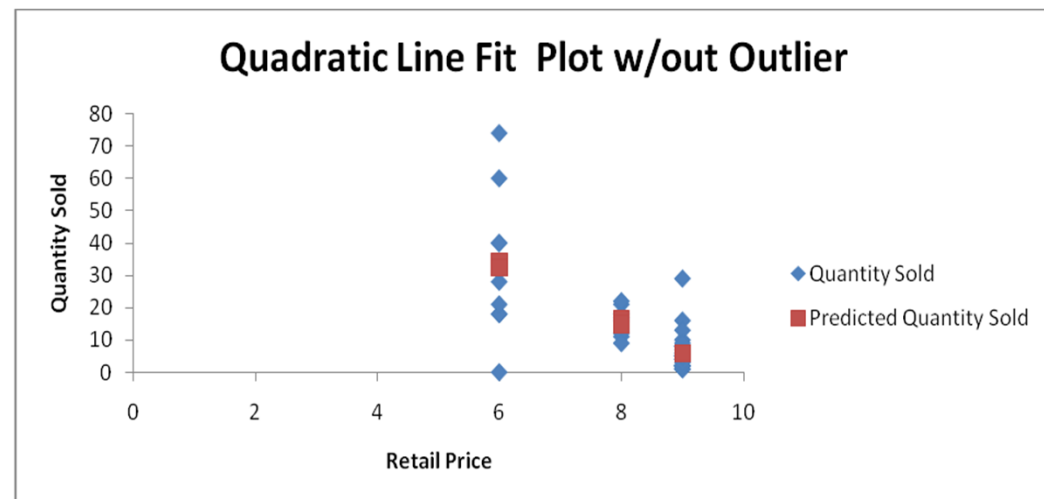
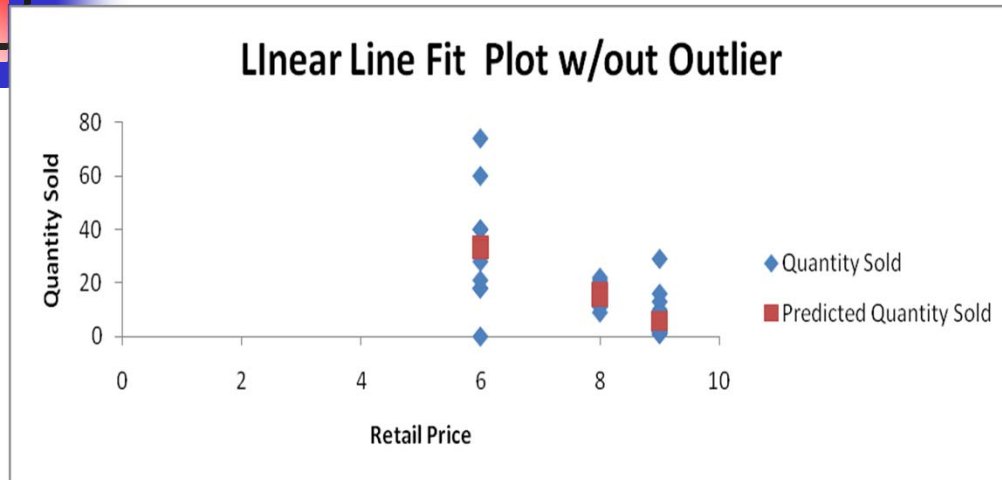
Complications

- Know customers' willingness-to-pay
 - Quantify the relationship between price and demand
 - Control for other factors that potentially affects demand
- Utilizing such knowledge to find the optimal prices
 - Use multiple prices to segment customers
 - Needs to allow for “leaked” customers.



Research methods

- Basic data manipulation and visualization using *Excel*
- Empirical estimation of demand curve using *Excel*
- Formulate and solve optimal pricing strategies using *Excel Solver*





Two Optimal Prices- Linear Function with Leakage

Marginal Cost: \$1

Demand at p1 (high price): $D(p) = (1-t) * (138.22 - 15.5 * p1)$
51.89

Demand at p2 (low price): $2(p1 - p2) + t * (100 - 2 * p1)$
10.219

P1 (high): \$**6.12**

p2 (low): \$**4.734**

Revenue1 (high)	\$245.58	Cost1 (high)	\$51.89
Revenue2 (low)	\$62.43	Cost2 (low)	\$10.21
Total Revenue	\$308.02	Total Costs	\$62.11

Profit \$245.90



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Is there a career in pricing?

- An insider's view of the pricing profession (Deloitte)

Figure 1. Base salary ranges by role

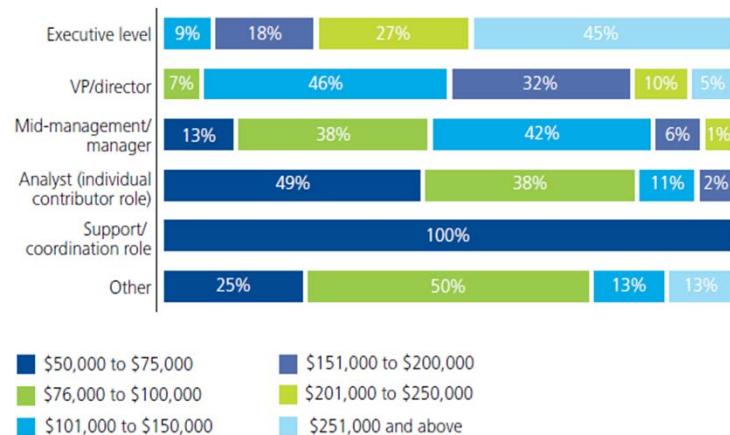
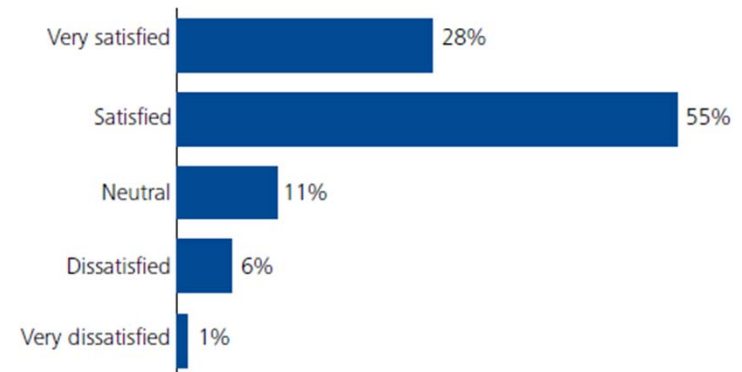


Figure 4. To what extent are you satisfied with your current job?



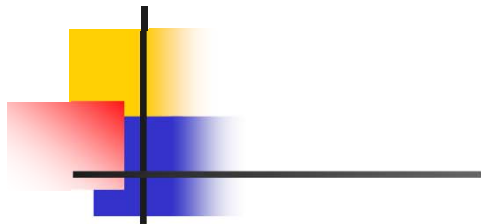


Figure 9. Indicate your level of agreement with the statement: "I consider my pricing role to be a very strong career enhancer."

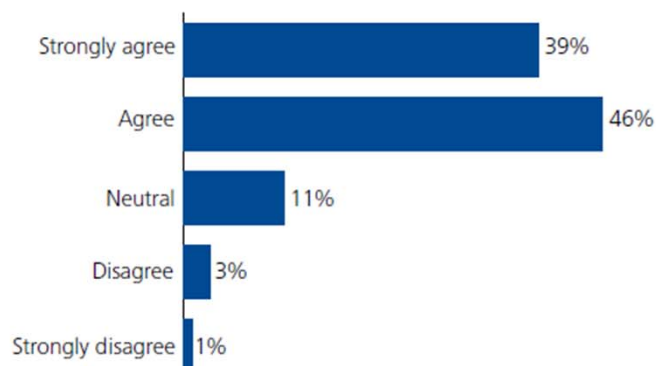


Figure 3. Distribution of pricing roles

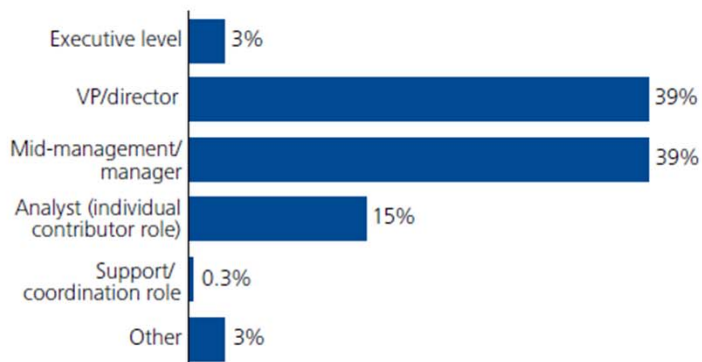
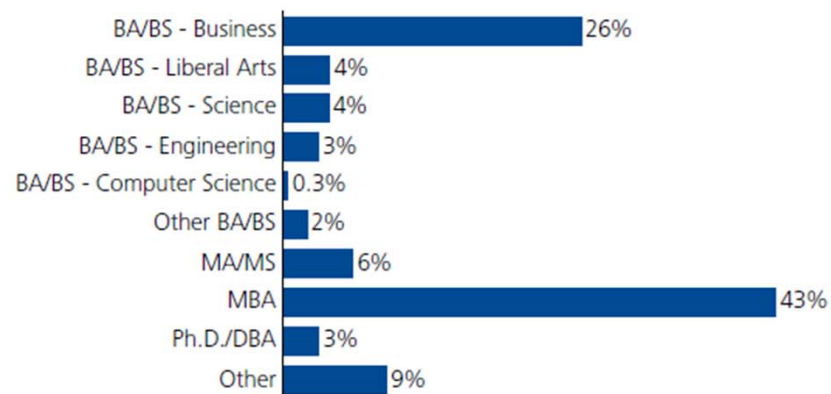
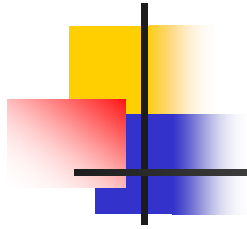


Figure 6. Respondent educational background





Materials

- Course reader available @ CU Bookstore
- Lecture slides
- Excel worksheets



Logistics

- Email: Yacheng.Sun@Colorado.edu
- Office Phone: 303-492-6211
- Office: KOBL 461
- Office hours:
 - 2 – 3:30pm Wednesday & Friday and by appointment
- Teaching Assistant: Ji Hoon Jhang
Ji.Jhang@Colorado.edu



Grading

- Exams: 600 pts (200 pts X 3)
- Team project: 300 pts
- Attendance scores: 100 pts
- Participation scores: 50 pts



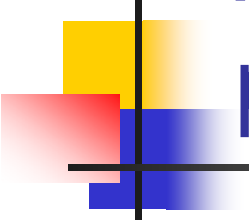
Exams(600 pts)

- All exams are close book
- Exam dates
 - Exam 1 February 15th (Tuesday)
 - Exam 2 March 17th (Thursday)
 - Exam 3 May 3rd (Tuesday)



Team project (300 pts)

- Team formation: 4-5 persons formed by self-selection
- Evaluation: Two-part grading
 - Fixed part: 50%
 - Variable part 0-50%: Peer evaluation
- Team work norm should be fair and flexible.
- Report to me early if there is any coordination issue.



Attendance (100 pts) and participation (50 pts)

- ***Attendance***
- Six to eight “random” quizzes used for keeping attendance
- ***Participation***
- I may cold-call
- There is usually no “correct answer” for a question
- Your input will be evaluated based on
 - Deliberation and quality of comments
 - Contribution to the learning atmosphere



This course values rigor

- Some people are born great
- Some achieved greatness
- Some have greatness thrust upon them...

- Shakespeare, *Twelfth Night*



Disability and religion observances

- Will do my best to accommodate.
- Let me know early - no last-minute surprises please.
- Supporting documents needed.
 - e.g., a letter from Disability Services (303) 492-8671, Willard 322

www.Colorado.EDU/disabilityservices



Classroom norms

- Be on time and prepared for class!
- Cell phones and pagers need to be turned off during class time.
- No use of laptop in the classroom unless instructed.
- No other non-academic activities in the classroom.



Deliverable for this session

- A one-minute paper for my better understanding of your
 - academic standing
 - career interests
 - expectations for the class



Remember: pricing and channel management
take much more than pure luck

- Don't expect to be as lucky!